

**NEBRASKA INVESTMENT COUNCIL
MINUTES OF THE MEETING OF
November 16, 2009**

A regular meeting of the Nebraska Investment Council convened at 8:37 a.m. at the Embassy Suites Hotel in Lincoln, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on November 3, 2009, and published in the Lincoln Journal Star on November 8, 2009. Ms. Werner-Robertson chaired the meeting and Ms. Dawes recorded the minutes.

MEMBERS PRESENT:

Ms. Gail Werner-Robertson, Chairwoman
Dr. Richard DeFusco
Mr. John Maginn
Mr. John Dinkel
Mr. Norm Riffel
Ms. Chambers (departed at 10:10 a.m. to attend PERB meeting)

MEMBERS ABSENT:

Treasurer Osborn

NONMEMBERS IN ATTENDANCE:

Mr. Jeff States, State Investment Officer
Ms. Kathy Dawes, Council Secretary
Mr. Joe Jurich, Nebraska Investment Council
Mr. Christopher Heinrich, Harding & Shultz
Mr. Kevin Vandolder, Ennis Knupp + Associates
Mr. Chris Riley, Ennis Knupp + Associates
Ms. JoLynn Winkler, Nebraska Investment Council
Ms. Heather Christopher, Ennis Knupp + Associates
Mr. Dan Drake, Ennis Knupp + Associates
Ms. Rachel Biar, Director, College Savings Program (represented the State Treasurer)

JOINING THE NIC FOR THE JOINT MEETING WITH PERB:

Mr. Denis Blank, Public Employees Retirement Board, Chairman
Sgt. Glenn Elwell, Public Employees Retirement Board Member
Mr. Mark Shepard, Public Employees Retirement Board Member
Mr. Richard Wassinger, Public Employees Retirement Board Member
Mr. Don Peterson, Public Employees Retirement Board Member
Ms. Janis Elliott, Public Employees Retirement Board Member
Mr. Dave Slishinsky, Buck Consultants
Mr. Randy Gerke, Nebraska Public Employees Retirement Systems
Mr. Joe Schaefer, Nebraska Public Employees Retirement Systems
Ms. Vicki Huber, Nebraska Public Employees Retirement Systems
Ms. Miden Ebert, Nebraska Public Employees Retirement Systems
Mr. Fred Turner, Nebraska Public Employees Retirement Systems
Ms. Kathy Tenopir, Legislative Fiscal Office
Ms. Kate Allen, Legislative Retirement Committee
Ms. Mary Campbell, Lincoln Public Schools
Mr. Gary Bush, AS State Budget Office
Mr. Bill Mueller, District Court Judges Association
Mr. Neil Bateman, Retired School Personnel
Mr. Doug Nabb, Fremont Public Schools
Mr. Herb Schimek, Nebraska State Education Association
Ms. Nancy Reimer, Ameritas
Mr. Korby Gilbertson, State Troopers Association of Nebraska
Ms. Nancy Hicks, Lincoln Journal Star
Ms. Martha Stoddard, Omaha World Herald
Mr. Roger Rea, NSEA-Retired

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Mr. Don Wesley, O'Hara Lindsay Government Relations
Mr. Don Stenberg, Public

JOINT MEETING WITH PERB: 8:37 a.m. to 9:40 a.m. Ms. Werner-Robertson welcomed everyone to the meeting and stated that a copy of the Open Meetings Act is located on the side table. Introductions were done by each member of the NIC and PERB.

Ms. Werner-Robertson stated that the annual joint meeting provides an opportunity for the NIC to discuss its responsibility of developing an investment strategy designed to enable the funds to meet the actuarially determined program liabilities.

Ms. Werner-Robertson introduced Mr. Jeff States, recently hired State Investment Officer. Ms. Werner-Robertson stated that Mr. States brings a great deal of experience to the NIC, and that the Council is very fortunate to have Mr. States on board. Ms. Werner-Robertson recognized Mr. Joe Jurich for stepping up to the plate during the interim period and doing an extraordinary job as Acting State Investment Officer. Ms. Werner-Robertson also wished to thank the entire NIC staff for their support during the transition period. Ms. Werner-Robertson thanked the Council as well, noting that the Council spends a tremendous amount of time making sure we do a great job managing these assets.

Mr. Blank reviewed the past year's activities of the PERB and NPERS. Mr. Blank also wanted to thank Mr. Jurich for his help during the interim period. Mr. Blank thanked the Board, NPERS' staff, and Ms. Chambers on their hard work and dedication during the last year.

June 30, 2009, Actuarial Report on Defined Benefit Plans and Cash Balance Benefit by Buck Consultants: Mr. Slishinsky distributed copies of the report, which included a review of the changes since last year and the history of investment return. Mr. Slishinsky also reported on the 2009 actuarial valuation results which included the following:

- Rate of return on market value of assets was about (19%), or 27% less than 8% assumed, creating a significant loss to be smoothed over five years.
- Recognition of losses from this year and last year result in 2% return on actuarial value, or 6% less than 8% assumed.
- Actuarial value is 75% of market value, down from about 95% from last year. There are significant net losses of \$1.8B yet to be recognized over the next four years.
- Funded ratios all decreased since last year:

	<u>Last Year</u>	<u>This Year</u>
■ School	91%	87%
■ State Patrol	94%	90%
■ Judges	105%	102%
■ State Cash Balance	103%	97%
■ County Cash Balance	108%	100%

- Increased court fees and contributions were sufficient to meet the actuarial requirement for Judges' and School.
- Additional contribution required for State Patrol.
- Strong economic recovery with returns significantly above the assumed return of 8% per year is needed to avoid additional State contributions over the next four years.

Quarterly Performance Report for the Retirement Plans by Ennis Knupp: Mr. Vandolder gave an overview of the third quarter market conditions, reporting better than expected earnings for the quarter. Mr. Riley reviewed the individual managers investing money for the DB Plans and the State and County Retirement Plans and their performance results. Copies of both presentations are included in the attachments to the minutes.

Capital Market Assumptions Discussion by Buck Consultants and Ennis Knupp: Mr. Slishinsky, Mr. Vandolder, and Mr. Riley discussed the methodology used by their firms to determine expected rates of return.

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Mr. Slishinsky discussed the formula used in determining the 8% assumed rate of return. Mr. Vandolder and Mr. Riley discussed the model used by Ennis Knupp and indicated that it is ran twice a year in January and July. Ms. Werner-Robertson and Mr. Blank thanked Ennis Knupp and Buck Consultants for their presentations.

Copies of the presentations are included in the attachments to the minutes.

At 10:10 a.m. the joint NIC/PERB meeting ended. The Council took a break and reconvened the Council meeting at 10:40 a.m.

APPROVAL OF THE MINUTES OF THE SEPTEMBER 29, 2009, MEETING: 10:40 a.m. to 10:42 a.m. Mr. Riffel moved that the October 7, 2009, draft of the minutes of the September 29, 2009, meeting be approved. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Dr. DeFusco
	Mr. Maginn
	Mr. Dinkel
	Mr. Riffel
	Ms. Werner-Robertson

The motion carried.

CHAIRWOMAN'S COMMENTS: 10:42 a.m. to 10:45 a.m. Ms. Werner-Robertson welcomed Mr. States and noted that since starting with the NIC on November 9th, Mr. States has proven to be a quick learner. Mr. States expressed his thanks to the NIC staff for their assistance during the transition period. Ms. Werner-Robertson welcomed Ms. Rachel Biar, who would be representing the Treasurer at today's meeting. She stated that due to a scheduling conflict, Treasurer Osborn was unable to attend today's meeting.

Ms. Werner-Robertson requested that Mr. Heinrich update the Council on Harding & Shultz's review of the Nebraska laws governing the NIC. Mr. Heinrich discussed the work that has been done and indicated that the Council will receive a list of funds and a compilation of applicable laws within several weeks with a more detailed report to follow.

3RD QUARTER PERFORMANCE REPORT FOR NON-RETIRMENT PLANS BY ENNIS KNUPP: 10:45 a.m. to 11:25 a.m. Mr. Riley reviewed with the Council the 3rd quarter performance report for the non-retirement plans and how they performed relative to their benchmarks. Mr. Riley and Mr. Vandolder reviewed the fee tables included in the meeting book, which were previously requested by the Council.

AUDIT REPORT BY THE AUDITOR OF PUBLIC ACCOUNTS (APA): 11:25 a.m. to 11:45 a.m. Dr. DeFusco updated the Council on the recently completed Agency audit for the period July 1, 2008 through June 30, 2009. Dr. DeFusco stated that he and Mr. Maginn along with staff had attended both an entrance conference and an exit conference with the APA. Dr. DeFusco indicated that at the time of the entrance conference, as a proactive measure, both he and Mr. Maginn had requested that the APA identify any weaknesses dealing with wire transfers. Dr. DeFusco thanked the NIC staff for their work on the audit.

Mr. States introduced Ms. Krista Davis, Audit Manager. Ms. Davis reviewed the recently completed audit report of the NIC. Ms. Davis stated that the APA is very appreciative of the cooperation extended to them by the NIC staff during the audit. Mr. States thanked the APA for their services.

SECURITIES LENDING PRESENTATION ENNIS KNUPP: 10:45 a.m. to 12:15 p.m. Mr. Vandolder and Mr. Riley presented an educational overview of securities lending and discussed the NIC's current Securities Lending Program. Following their presentation the Council discussed and made changes to the Securities Lending Policy included in the meeting book.

A copy of the presentation was included in the meeting book.

SECURITIES LENDING PRESENTATION STATE STREET BANK: 12:15 p.m. to 12:50 p.m. Mr. States

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introduced from State Street Bank, Mr. Scott Paton, Senior Vice President, Mr. Craig teDuits, Vice President, and Mr. Johnson Shum, Vice President. Their presentation included in the meeting book reviewed the NIC's Securities Lending Program. They also gave an update on the State Street organization. A copy of their presentation was included in the meeting book.

The Council took a break at 12:50 p.m. and reconvened at 12:58 p.m.

SECURITIES LENDING-continued: 12:58 p.m. to 1:00 p.m. Following further discussion by the Council, Mr. Maginn moved to adopt the Securities Lending Policy with the changes recommended by the Council. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Mr. Maginn
	Mr. Dinkel
	Mr. Riffel
	Ms. Werner-Robertson
	Dr. DeFusco

The motion carried.

A copy of the adopted policy is included in the attachments to the minutes.

REAL ESTATE PRESENTATION BY ENNIS KNUPP: 1:00 p.m. to 1:50 p.m. Ms. Christopher and Mr. Drake reviewed the 2009 2nd quarter real estate performance report, commenting on the 2nd quarter market environment and the portfolios' investments. Ms. Christopher and Mr. Drake gave an overview of public and private real estate and the NIC's investments in each and gave a pacing update. Mr. Maginn requested that in the future EK also provide information on the pacing schedule relative to the NIC's direct vs. REITS investments.

Core Real Estate for the Endowments: Ms. Christopher discussed the November 16, 2009, memo included in the meeting book relating to core real estate investments in the General Endowment Plans. At the November 17, 2008, Council meeting the Council had voted to allocate \$2 million per year over the next four years to two core real estate funds, but had not identified the funds. Ms. Christopher indicated Ennis Knupp recommends that for 2009, the Council allocate \$1 million in core commitments to be split equally between UBS TPF and Prudential PRISA. Ms. Christopher further stated Ennis Knupp would make a separate recommendation to the Council regarding the core real estate allocation in 2010. Following discussion by the Council Mr. Dinkel moved to approve splitting the \$1 million core real estate allocation for 2009 equally between UBS TPF and Prudential PRISA. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:	Mr. Dinkel
	Mr. Riffel
	Ms. Werner-Robertson
	Dr. DeFusco
	Mr. Maginn

The motion carried.

Ms. Chambers joined the meeting at 1:50 p.m.

PRIVATE PLACEMENT RISK MANAGEMENT: 1:50 p.m. to 2:00 p.m. Ms. Christopher and Mr. Drake discussed with the Council Private Placement Agents and Ennis Knupp's process to ensure no conflicts exist. Mr. Heinrich also stated that all NIC investment manager legal documents now include a conflict of interest section regarding private placement agents. Mr. States stated that the real estate and private equity investment policy statements should be updated addressing conflict of interest and that he would bring proposed drafts of each to the February 17th meeting for the Council's consideration. Mr. Maginn requested Ennis Knupp identify which NIC managers utilize a private placement agent and the cost associated with it. A copy of the presentation was included in the meeting book.

OIP ANALYTICS: 2:00 p.m. to 2:20 p.m. Mr. Riley distributed copies of the Operating Investment Pool

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Analysis. Mr. Vandolder and Mr. Riley discussed the holdings and characteristics of both the externally and internally managed portfolios within the Operating Investment Pool.

COLLEGE SAVINGS PLAN UPDATE: 2:20 p.m. to 2:35 p.m. Ms. Biar indicated that the annual audit of the College Savings Plan has been completed and is available on the Treasurer's website. Ms. Biar updated the Council on the RFP timeline for the Program Management Services for the College Savings Plan. Ms. Biar reported that Union Bank is ready for the transition of the AIM accounts scheduled to be liquidated on December 4, 2009, and then transferred to Union Bank to be reinvested in the College Savings Plan of Nebraska.

STATE INVESTMENT OFFICER'S REPORT: 2:35 p.m. to 3:08 p.m.

Agency Budget Update: Mr. States reviewed the report included in the meeting book.

Special Session Update: Mr. States updated the Council on his recent testimony before the Legislature's Appropriations Committee regarding the Governor's recommendation to cut the agency's budget and also transfer of its cash funds to the General Fund. Since hearings are still being held by the Committee, no additional information is available at this time. Mr. States indicated that he will update the Council when additional information becomes available. Mr. Dinkel commented that during his recent re-appointment confirmation hearing he was asked to update the Committee on the Agency's current vacancies. Mr. Dinkel requested that the Council send Senator Pankonin a personal letter inviting him to the Council meetings to keep him informed of Council activities.

IMAs Executed since the last meeting: Mr. States reported that Galliard IMA guidelines have been updated, agreements with Merit Capital and Longroad Asset Management have been completed and that the Stable Value IMA with T. Rowe Price has been extended to September 15, 2012.

2010 Meeting Schedule: The Council decided on the following meeting dates for 2010, start time 8:30 a.m.:

February 17, 2010, Lincoln Embassy Suites
March 17, 2010, Lincoln Embassy Suites
May 26, 2010, Lincoln Embassy Suites
August 18, 2010, La Vista Embassy Suites
September 22, 2010, La Vista Embassy Suites
November 15, 2010, joint meeting with PERB, Lincoln Embassy Suites

Upcoming Legislative Session: Mr. States reported that he has been contacted by the Department of Labor, regarding possible legislation to allow the SIO to provide investment advice to the Department of Labor regarding its retirement plan established prior to July 1, 1984.

Miscellaneous: Mr. Maginn moved that the Council would formally like to thank Mr. Jurich and the NIC staff for their hard work during the State Investment Officer search interim period. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:

Mr. Riffel
Ms. Robertson
Dr. DeFusco
Mr. Maginn
Mr. Dinkel

The motion carried.

Ms. Chambers left the meeting at 2:50 p.m.
Mr. Riffel left the meeting at 3:00 p.m.

PUBLIC COMMENT ON THE AGENDA: 3:08 p.m. to 3:10 p.m. Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

At 3:10 p.m. Mr. Dinkel moved to adjourn the meeting. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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VOTING AYE: Ms. Robertson
 Dr. DeFusco
 Mr. Maginn
 Mr. Dinkel

ABSENT NOT VOTING: Mr. Riffel

The motion carried.


Kathy Dawes, Secretary